ANNUAL REPORT

# CONTAINER CORPORATION OF AMERICA

CHICAGO, ILLINOIS

# 1940

FISCAL YEAR ENDED DECEMBER THIRTY-FIRST

ANNUAL REPORT

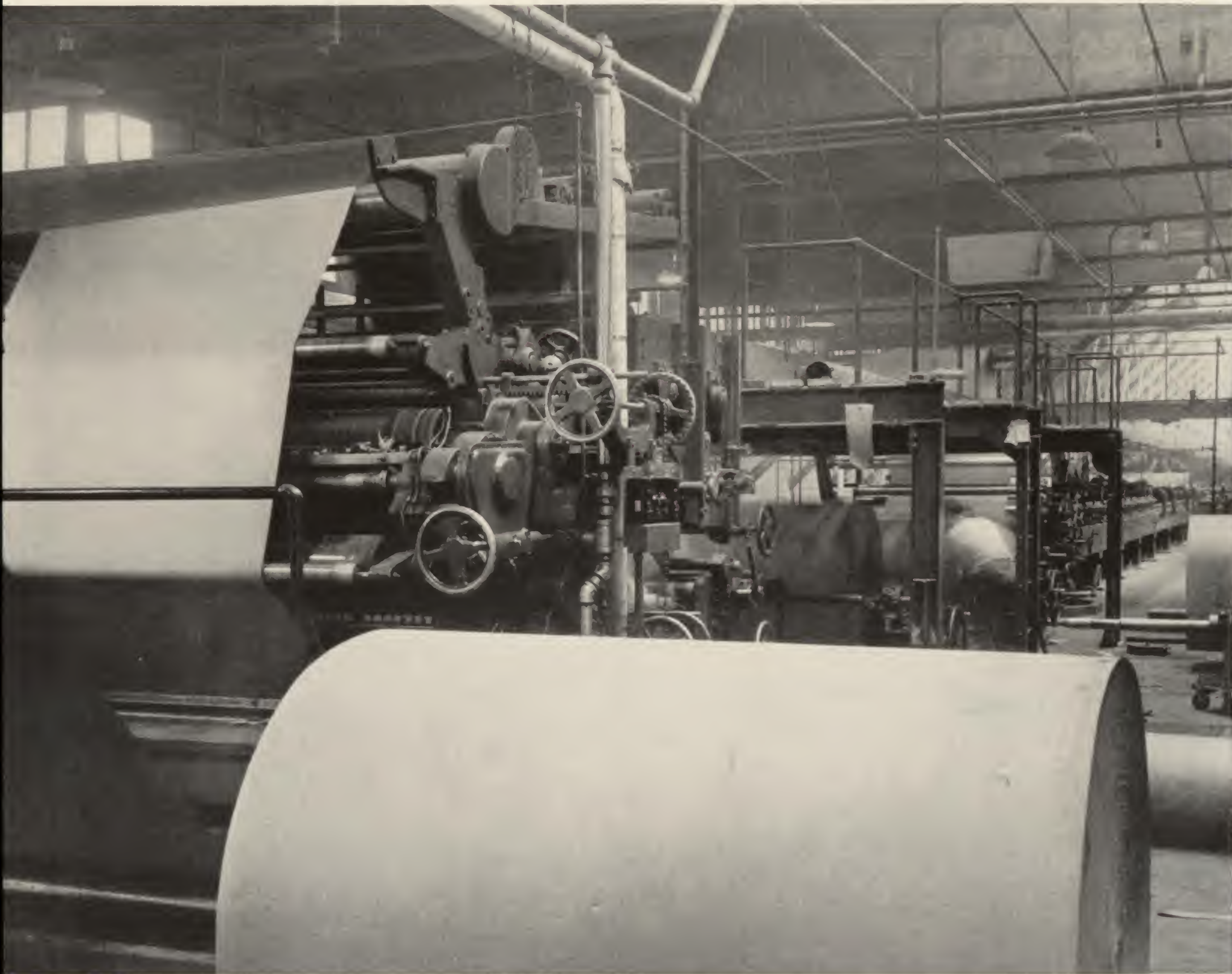
FEBRUARY 25, 1941

# CONTAINER CORPORATION OF AMERICA

| | |
|---|---|
| **MILLS** | Carthage, Indiana<br>Chicago, Illinois<br>Circleville, Ohio<br>Fernandina, Florida<br>Kokomo, Indiana (idle)<br>Philadelphia, Pennsylvania<br>Wabash, Indiana<br>Wilmington, Delaware (leased) |
| **FACTORIES** | Anderson, Indiana<br>Chicago, Illinois<br>Cleveland, Ohio (leased)<br>Cincinnati, Ohio<br>Fort Worth, Texas (leased)<br>Natick, Massachusetts<br>Philadelphia, Pennsylvania<br>Rock Island, Illinois (leased) |
| **BRANCH AND SALES OFFICES** | Akron, Ohio<br>Anderson, Indiana<br>Chicago, Illinois<br>Cincinnati, Ohio<br>Cleveland, Ohio<br>Detroit, Michigan<br>Fort Worth, Texas<br>Indianapolis, Indiana<br>Minneapolis, Minnesota<br>Natick, Massachusetts<br>New York, New York<br>Peoria, Illinois<br>Philadelphia, Pennsylvania<br>Pittsburgh, Pennsylvania<br>Rochester, New York<br>Rock Island, Illinois<br>St. Louis, Missouri<br>Wabash, Indiana |
| **OPERATING SUBSIDIARY** | Pioneer Paper Stock Company<br>Plants (all leased) located at<br>Chicago, Ill., Detroit, Mich.,<br>Kalamazoo, Mich., Philadelphia, Pa. |
| **AFFILIATED COMPANY** | Sefton Fibre Can Company, St. Louis, Mo. |

## 111 WEST WASHINGTON STREET, CHICAGO

| | |
|---|---|
| **DIRECTORS** | WILLIAM R. BASSET, New York, New York<br>J. J. BROSSARD, Philadelphia, Pennsylvania<br>HENRY B. CLARK, San Diego, California<br>WESLEY M. DIXON, Chicago, Illinois<br>JOHN L. DOLE, Chicago, Illinois<br>GEORGE DEB. GREENE, New York, New York<br>WILLIAM P. JEFFERY, New York, New York<br>WALTER P. PAEPCKE, Chicago, Illinois<br>J. V. SPACHNER, Chicago, Illinois |
| **EXECUTIVE COMMITTEE** | WILLIAM R. BASSET<br>WILLIAM P. JEFFERY<br>WALTER P. PAEPCKE |
| **OFFICERS** | President, WALTER P. PAEPCKE<br>Vice President, J. J. BROSSARD<br>Vice President, WESLEY M. DIXON<br>Vice President, IRA C. KELLER<br>Vice President, J. V. SPACHNER<br>Treasurer—Comptroller,<br>H. C. BAUMGARTNER<br>Secretary, E. A. WAGONSELLER<br>Assistant Treasurer, CHRIST MADSEN<br>Assistant Secretary, L. A. COMBS |
| **TRANSFER AGENTS** | CONTAINER CORPORATION OF AMERICA, Chicago, Illinois<br>CITY BANK FARMERS TRUST COMPANY, New York, New York |
| **REGISTRARS** | CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY, Chicago, Illinois<br>THE NEW YORK TRUST COMPANY, New York, New York |



Eighty-five-inch corrugator recently installed at the Quad Cities plant, Rock Island, Illinois. With a top speed of 375 feet per minute, it can produce over 100,000 square feet of corrugated paperboard per hour.

# CONTAINER CORPORATION OF AMERICA

CHICAGO, ILLINOIS, FEBRUARY 25, 1941

## TO THE STOCKHOLDERS OF CONTAINER CORPORATION OF AMERICA

We submit herewith the Annual Report of Container Corporation of America for the year ended December 31, 1940, including the Auditors' Certificate, a Consolidated Balance Sheet, and Summaries of Consolidated Profit and Loss and Surplus Accounts.

## FINANCIAL REVIEW

PROFIT AND LOSS. The consolidated net profit for 1940 was $2,227,682 compared with $1,448,900 for 1939. In each case, earnings are net after administrative charges, interest, and provisions for depreciation, bad and doubtful accounts, local and Federal taxes, including excess profits taxes. These earnings are equivalent to $2.85 a share on each of the 781,253 outstanding shares of capital stock. Quarterly earnings per share were:

| | |
|---|---|
| 1st Quarter (After Federal income tax of 24%) | $ .60 |
| 2nd Quarter (After Federal income tax of 24%) | .78 |
| 3rd Quarter (After Federal income tax of 24%) | .99 |
| 4th Quarter (After Federal income tax of 24%) | 1.01* |
| | $3.38 |
| Less provision for excess profits taxes | .53 |
| | $2.85 |

*Including year end adjustments representing $.22 per share.

A comparative summary of operating results for the last three years follows:

| | 1940 | 1939 | 1938 |
|---|---|---|---|
| Net sales (including brokerage sales of subsidiary) | $30,464,677 | $24,114,815 | $18,705,290 |
| Cost of sales (exclusive of depreciation) | 23,339,894 | 19,172,531 | 15,295,294 |
| Gross profit (exclusive of depreciation) | $ 7,124,783 | $ 4,942,284 | $ 3,409,996 |
| Provision for depreciation (includes depletion of $3,669 for 1939 and $11,138 for 1940) | 1,241,246 | 1,180,417 | 1,261,111 |
| Gross profit from operations | $ 5,883,537 | $ 3,761,867 | $ 2,148,885 |
| Selling, administrative and general expenses (exclusive of bad debts) | 2,361,345 | 1,690,557 | 1,748,504 |
| Net profit from operations (exclusive of bad debts) | $ 3,522,192 | $ 2,071,310 | $ 400,381 |
| Other charges: | | | |
| Provision for bad debts, less recoveries | $ 4,912 | $ 18,923 | $ 11,891 |
| Loss on capital assets retired | 42,706 | 107,990 | 56,879 |
| | $ 47,618 | $ 126,913 | $ 68,770 |
| | $ 3,474,574 | $ 1,944,397 | $ 331,611 |
| Other income: | | | |
| Purchase discounts, interest earned, etc | $ 160,648 | $ 163,150 | $ 144,700 |
| Net profit before interest and Federal income taxes | $ 3,635,222 | $ 2,107,547 | $ 476,311 |
| Interest charges, etc.: | | | |
| Interest on first mortgage bonds (retired in 1940) | $ 69,410 | $ 156,664 | $ 163,687 |
| Interest on debentures (retired in 1940) | 57,512 | 160,645 | 184,893 |
| Interest on term bank loans | 66,552 | — | — |
| Amortization of debt discount and expense | 15,542 | 38,124 | 39,018 |
| Other interest, etc | 11,524 | 10,171 | 25,043 |
| | $ 220,540 | $ 365,604 | $ 412,641 |
| Net profit before Federal income taxes | $ 3,414,682 | $ 1,741,943 | $ 63,670 |
| Provision for: | | | |
| Federal income taxes | $ 773,000 | $ 293,043 | $ 34,200 |
| Federal excess profits taxes | 414,000 | — | — |
| | $ 1,187,000 | $ 293,043 | $ 34,200 |
| Net profit carried to earned surplus | $ 2,227,682 | $ 1,448,900 | $ 29,470 |

Depreciation was provided at the same rates used in the preceding year which resulted in a depreciation charge against operations of $1,230,107. This was the gross amount added to the depreciation reserve account. The accumulated depreciation on those assets which were sold or retired during the year, amounting to $134,950, was deducted from the depreciation reserve. Thus, there was a net increase in the depreciation reserve during the year of $1,095,157, which was the difference between the provision of $1,230,107 and the charges of $134,950.


Loss on fixed assets sold or retired during the year amounted to $42,706 and was charged against the year's profit and loss account.

Because of the uniformly high rate of operations throughout the year, repairs and maintenance of buildings, machinery and equipment, was higher than in former years. The entire amount of $1,261,214 expended for repairs and maintenance was absorbed in operating costs.

Federal income and excess profits taxes amounted to $1,187,000, or $1.52 per share of outstanding stock. Of this amount $414,000 represents the excess profits tax. For the determination of this tax the parent company used the invested capital method, while in the case of the subsidiary, Pioneer Paper Stock Company, the four year average earning basis was the more advantageous.

The diagram and table indicate the relative proportion of net sales accounted for by profit, labor, selling, administrative and general expense, raw materials, factory supplies and expense, depreciation, interest, and taxes. The net profit for 1940 represents a return of 11.41% on the average capital (capital stock and surplus) employed during the year.

| | 1940 | | 1939 | |
|---|---|---|---|---|
| Net sales | $30,464,677 | 100.00% | $24,114,815 | 100.00% |
| Raw materials | $12,738,754 | 41.82% | $ 9,944,774 | 41.24% |
| Factory supplies and expense | 5,142,002 | 16.88 | 4,510,314 | 18.70 |
| Labor | 4,978,805 | 16.34 | 4,274,026 | 17.73 |
| *Selling, administrative and general expense | 2,155,903 | 7.08 | 1,644,532 | 6.82 |
| Provision for depreciation (includes depletion of $3,669 for 1939 and $11,138 for 1940) | 1,241,246 | 4.07 | 1,180,417 | 4.89 |
| Provision for local and Federal taxes | 1,775,287 | 5.83 | 784,372 | 3.25 |
| Interest charges | 204,998 | .67 | 327,480 | 1.36 |
| Net profit | 2,227,682 | 7.31 | 1,448,900 | 6.01 |

*Includes other income and charges.

WORKING CAPITAL. The following table sets out in comparative form the changes in working capital:

| | December 31 1940 | December 31 1939 | Increase or Decrease (d) |
|---|---|---|---|
| CURRENT ASSETS: | | | |
| Cash in banks and on hand | $2,456,532 | $1,044,918 | $1,411,614 |
| Accounts and notes receivable from customers, less reserves | 1,757,532 | 1,676,406 | 81,126 |
| Notes receivable (secured by property sold) | 125,000 | 125,000 | — |
| Sundry receivables | 86,474 | 102,046 | 15,572(d) |
| Inventories | 3,410,931 | 3,644,189 | 233,258(d) |
| Total current assets | $7,836,469 | $6,592,559 | $1,243,910 |
| CURRENT LIABILITIES: | | | |
| Accounts payable—trade creditors | $ 345,977 | $ 544,006 | $ 198,029(d) |
| Accounts payable—construction contracts | — | 275,999 | 275,999(d) |
| Accrued interest | 3,989 | 18,193 | 14,204(d) |
| Accrued salaries, wages and profit-sharing provision | 465,411 | 167,370 | 298,041 |
| Accrued taxes | 338,430 | 302,636 | 35,794 |
| Provision for Federal income taxes | 1,186,977 | 296,000 | 890,977 |
| Sundry accruals | 25,000 | 28,779 | 3,779(d) |
| Sinking fund payments due within year | — | 250,000 | 250,000(d) |
| Total current liabilities | $2,365,784 | $1,882,983 | $ 482,801 |
| Net working capital | $5,470,685 | $4,709,576 | $ 761,109 |
| Current ratio | 3.31 to 1 | 3.50 to 1 | |

There was an increase in current assets of $1,243,910. Cash increased by $1,411,614. Receivables were almost the same as at the end of 1939 and represented approximately twenty-five days of shipments; credit losses for the year were $4,912, or less than two hundredths of one per cent of the year's volume of sales. Inventories were lower by $233,258, because your Company was carrying a large inventory of pulp to insure supply at the end of 1939 while it now has domestic sources of supply of bleached and unbleached sulphite pulp. It obtains its unbleached sulphate pulp from its own Florida pulp mill.

Among the current liabilities, accounts payable were lower by $198,029. There was a reduction of $275,999 in contracts payable for construction in progress. The smaller amount of outstanding long term debt, the lower interest rates, and the fact that the interest is paid monthly on the present bank term credit, account for the reduction in accrued interest. Accrued salaries, wages and profit-sharing provision shows an increase of $298,041. The large increase of $890,977 in reserve for Federal income and excess profits taxes is due to the higher taxable profit earned, the higher rate of Federal income taxes, and the inclusion of a reserve for excess profits taxes. The elimination of $250,000 in long term debt under current liabilities reflects the prepayment of all long term debt due within the next twelve months.


The Fort Worth, Texas, location of the new Container Corporation plant at 2615 West 7th Street. Both folding cartons and corrugated containers are fabricated here.

Looking down the center aisle of the Corrugating Department on the second floor. Abundant light streams in through the large windows.

An application of funds statement follows which sets out the sources of funds and their disposition:

| | | | | |
|---|---|---|---|---|
| Funds provided from the following sources: | | | | |
| Profit for year | | | $2,227,682 | |
| Add expense items not requiring cash— | | | | |
| Provision for depreciation | | $1,230,108 | | |
| Provision for depletion | | 11,138 | | |
| Amortization of debt discount and expense— | | | | |
| Balance January 1, 1940 | $157,485 | | | |
| Less charged to surplus | 141,943 | 15,542 | | |
| Loss on property sold or retired | | 42,706 | 1,299,494 | $3,527,176 |
| Proceeds from term bank loan | | | | 5,000,000 |
| Net decrease in other receivables and investments— | | | | |
| Advances under contracts—Frederick G. Becker, Inc.— | | | | |
| Funds returned during year | | $ 849,424 | | |
| Less advances made during year | | 414,321 | $ 435,103 | |
| Sundry other receivables and investments | | | 324,378 | 759,481 |
| Sale of property | | | | 10,847 |
| | | | | $9,297,504 |
| Which were expended or accounted for as follows: | | | | |
| Dividends paid | | | | $1,171,879 |
| Retirement of Company's own bonds and debentures— | | | | |
| Purchased | | | $ 105,000 | |
| Called for redemption | | | 5,271,000 | |
| | | | $ 5,376,000 | |
| Less amount included in current liabilities Dec. 31, 1939 | | | 250,000 | 5,126,000 |
| Premium paid on retirement of bonds and debentures | | | | 65,220 |
| Payments on term bank loans | | | | 900,000 |
| Additions to plant and equipment | | | | 1,266,787 |
| Net increase in working capital | | | | 761,109 |
| Net increase in deferred charges other than debt discount and expense | | | | 6,509 |
| | | | | $9,297,504 |

The principal sources of incoming funds were the profit for the year, the provision for depreciation and the collection of the very substantial amount of $849,424 in cash from Frederick G. Becker, Inc. formerly carried under other assets; this fund was originally not to be repaid to the Company until the end of 1942, but in accordance with a change in the agreement, all these accumulated cash funds were returned to the Company in December, 1940. A new four year agreement was entered into with Frederick G. Becker, Inc. which, among other things, calls for the payment by the Company of one dollar a ton of paper mill production; these funds are to be held by Frederick G. Becker, Inc. for the account of your

Company and may be used for the payment of the purchase price or lease of any paper mills which your Company might want to acquire in the future; if the monies are not used for that purpose they are to be returned at the end of a four year period to the Corporation, less a small administrative charge. Furthermore, the contract permits a cancellation of the agreement upon six months' notice, in which case any accumulated funds will be returned to your Company. It is our understanding that similar contracts have been entered into by Frederick G. Becker, Inc. with twenty or more other paperboard manufacturers. The legality of the former as well as of the renewed contract has been carefully reviewed by many well known legal firms, and before the renewed contract was entered into, a full discussion and complete disclosure of the contract and its purposes was had with the Department of Justice; changes and modifications in the form of the contract were made in accordance with the suggestion of the Department.

The main uses of incoming funds were the following:

1. Dividends of $1,171,879 were paid during the year and represent disbursements of $1.50 a share.

2. Funded debt was reduced by $1,276,000 (inclusive of that part of the funded debt represented by the amount of $250,000 in last year's statement which was due within a twelve month period and therefore shown as a current liability).

3. Working capital was increased by $761,109.

4. Capital expenditures of $1,266,787 (including $321,175 for equipping new plants on leased locations) were made for additions and improvements to land, buildings, machinery and equipment.

On pages 20 to 23 a twelve year comparison of balance sheets, summary of profit and loss, record of dividends, and funded debt interest, is submitted. These tabulations give a detailed reflection of the progress of your Company over a long period.

FUNDED OBLIGATIONS. On March 2nd your Company signed agreements with seven participating banks for the extension of a five-year bank term credit of $5,000,000 at interest rates of 1½% for the first year's maturities, 1¾% for the second, 2% for the third, 2¼% for the fourth, and 2½% for the fifth year. This credit was taken up on May 24th and the proceeds were applied to the call and retirement of the $2,524,000 of outstanding 6% bonds and the $2,747,000 of 5% debentures. The unamortized amount of debt discount and expense of $141,943 and the premium on bonds and debentures called of $65,220 were charged against earned surplus. Under the terms of the bank term credit agreement the Company agreed to pay off $50,000 per month for sixty months and any unpaid part of the $2,000,000 balance at the end of the fifth year. In accordance with this provision your Company has made six monthly payments of $50,000 up to December 31, 1940. In addition, however, your Company prepaid $600,000, or the twelve monthly payments due during 1941.

After very thorough consideration and study, your Board of Directors now recommends to the shareholders and asks their approval at the coming Annual Meeting of a $5,000,000

preferred stock issue bearing a dividend rate of 4½% or less. The proceeds of this issue would be used to retire, without premium, as permitted by the bank term credit agreement, the balance of the bank credit amounting to $3,950,000 as of March 15, 1941, and to augment working capital. It is the judgment of your Directors and Officers that the best interests of the shareholders will be served, and the greatest protection for the Company's future provided, by securing permanent partnership money through the medium of a non-sinking fund, low dividend rate preferred stock.

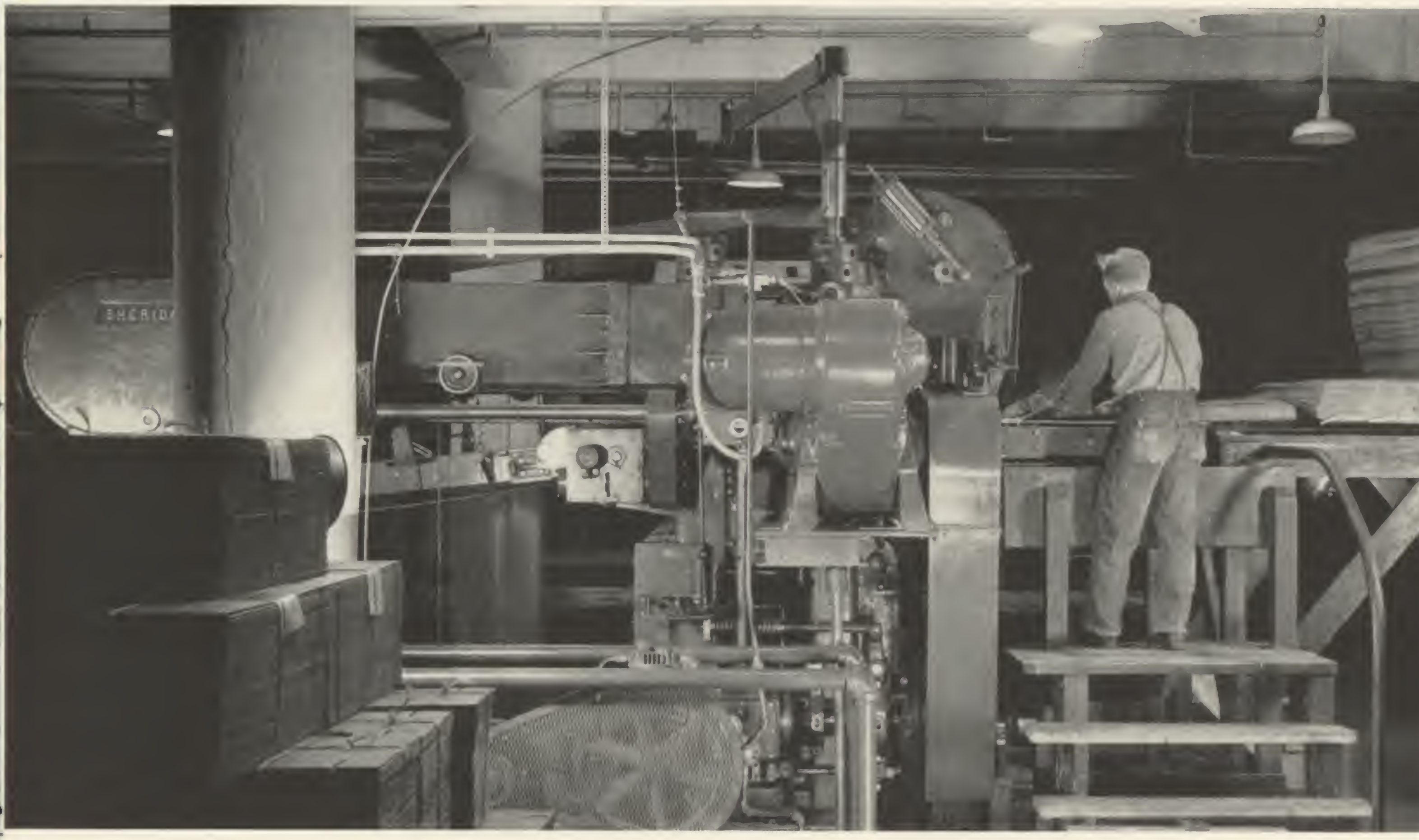
Under the present existing Excess Profits Tax Law, the broader base of invested capital provided by the proposed preferred stock issue will, in profit years subject to excess profits taxes, produce a substantial saving contrasted with the narrower and progressively narrowing (as payments are made) invested capital base of the bank term credit. This saving would result in spite of the fact that interest on the bank term credit is a deductible expense for normal tax determination while the preferred stock dividend is non-deductible.

It is our unanimous feeling that if business conditions should permit of larger volume of business for your Corporation, additional working capital and the lack of necessity of cutting into present working capital in order to make payments on the bank term credit, will be highly advantageous; if on the other hand business conditions should become unsatisfactory, the additional security of permanent partnership capital will be most desirable as an added and valuable protection.

During the last depression lasting in acute form from 1929 until 1933, your Company paid out in cash for sinking fund purposes and interest charges on bonds and debentures and for sinking funds and dividends on the then outstanding preferred stock, an average of approximately $860,000 per year. Under the presently existing bank term credit the principal payments would amount to $600,000 per year, plus average interest of more than $70,000 a year for the next four years. On the other hand the preferred dividend payable under the newly proposed refinancing would amount to $225,000 or less per year, and without any further sinking fund requirements. The accomplishment of the proposed program would make the difference between the dividend requirement on the new preferred stock and the combined interest and sinking fund charges on the existing bank term credit available for corporate purposes including dividend payments on common stock.

CAPITALIZATION. There was no change during the year in the 781,253 shares of outstanding capital stock. These shares were owned by almost 8,000 shareholders. The largest shareholder owns less than 8% of the total outstanding; over 40% of the outstanding shares are owned by holders of one to two hundred shares each.

SURPLUS. The year's net profit of $2,227,682 was credited to earned surplus. The dividend payments of $1,171,879 were charged against earned surplus. Unamortized debt discount and expense of $141,943 remaining at the time of redemption of the Company's first mortgage bonds and debentures as well as the premiums paid of $65,220 was also charged against earned surplus. The net addition to earned surplus for 1940 amounted to $848,639.



New Sheridan press set up this year at the Ogden plant. It die-cuts and scores specialty products, such as beer cases, at the rate of 1800 impressions per hour.

## OPERATIONS

The following table indicates the number of tons of paperboard and pulp produced in your Company's mills as well as the number of tons of finished product shipped by mills and box factories:

| | Tons Produced in Mills | Tons Finished Product Shipped |
|---|---|---|
| 1932 | 252,464 | 281,423 |
| 1933 | 299,346 | 320,961 |
| 1934 | 300,424 | 312,830 |
| 1935 | 373,399 | 382,381 |
| 1936 | 428,627 | 441,086 |
| 1937 | 391,270 | 390,496 |
| 1938 | 346,616 | 361,820 |
| 1939 | 432,848 | 462,385 |
| 1940 | 461,815 | 504,507 |

A substantial amount of paperboard tonnage was fabricated and shipped by your Company's box factories which was not produced by your Company's mills but purchased from outside sources. This accounts for the larger number of tons of finished product shipped than produced in your Company's own mills.

The Fernandina pulp mill produced 58,550 tons of unbleached sulphate pulp. Your Company's own consumption of this item was approximately 15,000 tons; the difference between production and consumption was available for sale to outside users.

The mills and box factories of your Company were very adequately maintained through the expenditure of $1,261,214 for repairs and maintenance; all of this was absorbed in operating costs.

The main capital expenditures made during the year were as follows:

1. Reserve timber land for the pulp wood requirements of the Fernandina mill were purchased in the amount of $33,580. Practically all of your Company's consumption of pulp wood was purchased on the open market, and depletion of its own stand of timber amounted to only $11,138.

2. New boilers were installed at the Coated Board plant and the Ogden Avenue factory, both in Chicago, and the new boiler installation at Circleville, Ohio, begun in 1939 was completed in 1940. The total spent for these boilers during 1940 amounted to $324,657.

3. The Rock Island and Fort Worth box factories accounted for $321,175 of capital expenditures for installation of machinery and leasehold improvements.

4. A large amount of new equipment of the most modern and up to date type was purchased and installed in the various box factories of the Company at an expenditure of more than $300,000.

5. Your Company's fleet of trucks, tractors, and trailers, which now numbers approximately 287 units, was added to by new purchases and improved by the replacement of older and, in some cases worn out equipment.

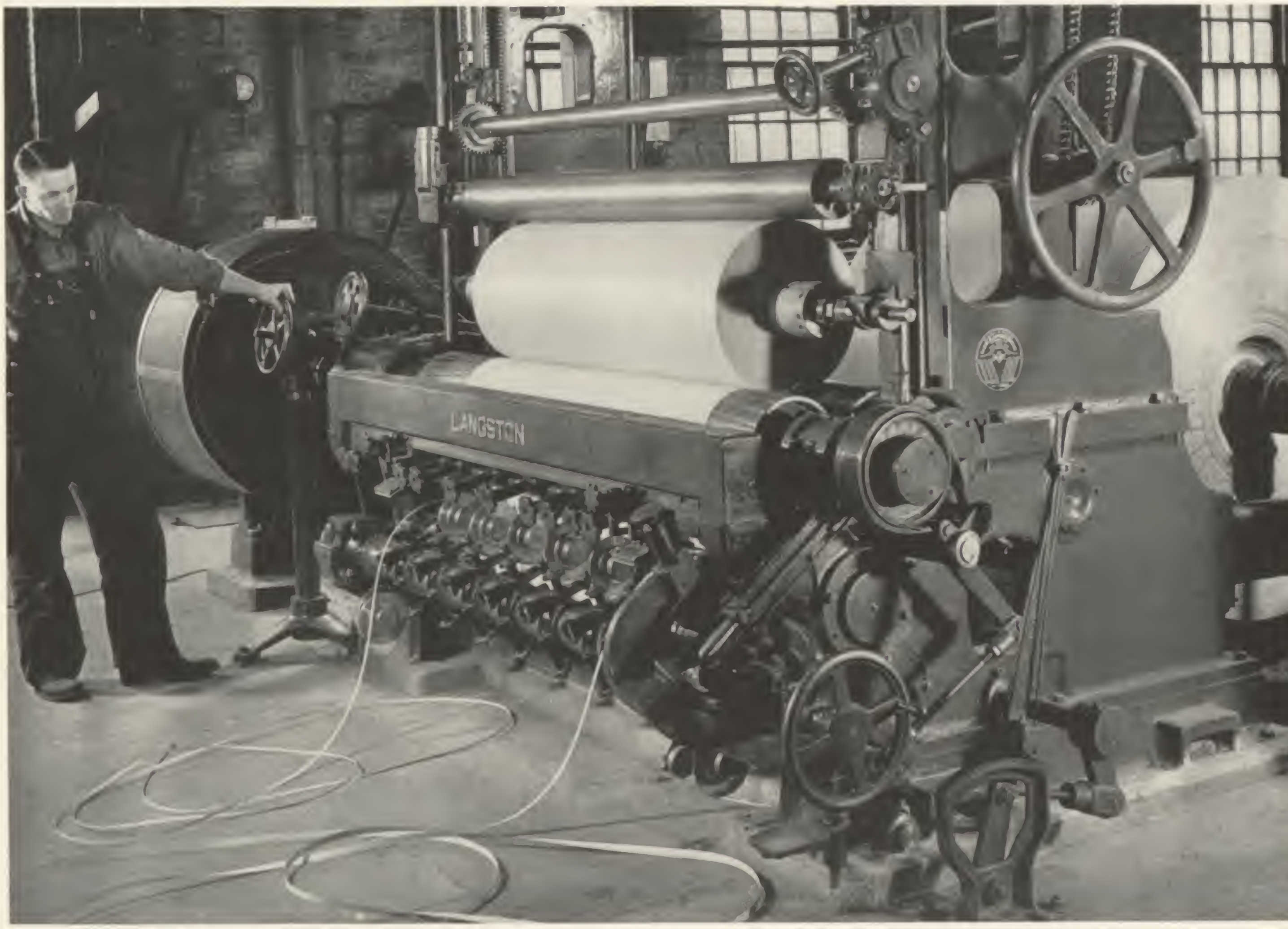
As a result of the expenditure of $1,266,787 for capital additions and of $1,261,214 for repairs and maintenance of present equipment, your Company's properties continue, generally speaking, in first class condition, capable of producing finished products at very competitive costs.

It should be pointed out, however, that in order to maintain low costs, high quality, and good service, it is essential to continue the policy of properly maintaining properties, continually replacing older equipment, and adding improved and better equipment as it is obtainable. Accordingly, it will continue to be your Company's policy to disburse requisite funds in order to maintain and improve mechanical equipment wherever possible.

## SALES

Consolidated net sales for 1940 amounted to $30,464,677. This represents an increase in dollar value of 26% over the previous year. The increase in unit volume was 9%. Selling prices during the first nine months of 1939 were on an unsatisfactorily low basis. Throughout 1940 the average selling price levels were better than in 1939 although distinctly lower than during the last quarter of 1939. At the end of 1940 price levels were spotty in that they reflected satisfactory levels in some products, fair in others, and unsatisfactorily low levels on some items.

Much time and effort was devoted to laboratory and research problems and many new and improved products were designed, developed and tested. The Art Department had a




Special slitter and rewinder for the coating mill at Wabash.

busy year in its work of creating and suggesting more artistic and attractive designs for all types of containers for all kinds of customers. The Sales Promotion Department is ceaselessly working with the above mentioned divisions in the introduction of structurally and artistically better designed packages and in the development of new markets for present products and of completely new products for new fields.

## AFFILIATED AND SUBSIDIARY COMPANIES

The Sefton Fibre Can Company of St. Louis, Missouri, which is engaged in the manufacture of paper cans partly with paper and partly with tin tops and bottoms, earned a profit of $48,493 after all charges. It improved and added to its machinery and equipment. It paid out dividends of 5% on its preferred stock; it reduced its outstanding preferred stock by $15,000 of par value. Even after these expenditures, there was a gain in working capital of $20,207. Its earnings and balance sheet are not included in the accompanying financial statements of the parent company and subsidiaries. It is not a wholly owned subsidiary.

The Pioneer Paper Stock Company, whose financial statements are included in the accompanying consolidated balance sheet and profit and loss statement of the parent company and subsidiaries, had a very active year resulting in a satisfactory profit. Your Corporation owns all the outstanding capital stock of this company.

## EMPLOYEE RELATIONS

At the present time your Company is employing approximately 4700 men and women including factory, office, and field workers (salesmen). Of this group approximately 81% are men and 19% women; the average age is thirty-five years.

As the Company has grown older and become more seasoned, your Board of Directors and Management, broadly in harmony with the spirit of modern times, have felt that greater recognition should and now could be given to the important matter of employee relations. Over the past few years, therefore, several steps have been taken all with the aim in mind of building an outstanding organization capable of producing outstanding results. All employees are constantly concerned with their present working conditions, their future opportunities, and their eventual security in old age. It was deemed advisable by your Directors to have an outside impartial survey made of all of our labor and employee relations and to have submitted as an integral part thereof a retirement annuity plan for all employees. After considerable thought, Industrial Relations Counselors, Inc., of New York City, were chosen for the purpose of making this survey. The retirement annuity plan which is being submitted to the shareholders at the Annual Meeting for approval was one of the results of this survey.

In essence the plan provides for employee and Company contributions for future service beginning January 1, 1941; it also provides for Company recognition of continuous past service; it will be administered by The Equitable Life Assurance Society of the United States, New York, N. Y. After the retirement annuity plan had received the approval of your Board of Directors it was submitted to every eligible employee, and 93% of these employees indicated their desire to participate in it by accepting the plan. Your Board of Directors recommends your approval of the retirement annuity plan as submitted and as fully described in the proxy statement. The plan should reduce labor turnover; it should be helpful in attracting to your Company an intelligent, experienced, and steady type of employee; it should increase the feeling of security and therefore the efficiency and interest of the men and women working for the Company. It is our considered judgment that the plan will inure to the benefit of the shareholders, the Company, and its employees.

For approximately ten years your Company has had a group life, accident, and sickness insurance plan in effect, the premiums of which are partly paid by the employees and partly by the Company. A year ago hospitalization and surgical care were included for all those insured under the group insurance plan at small additional expense to the Company and without any additional expense to the employees. Throughout many of the factories employee's credit unions have been established and have satisfactorily filled a need in case of emergencies without cost to the Company. Much study has been given and continuous improvements are being made in the fields of safety work, employee hygiene and first aid, medical examinations, and factory sanitation.

Your Company has among its nineteen plants some that have labor unions and some that are non-union. Rates of pay for labor at the various plants and salaries throughout the offices compare favorably with average competitive conditions throughout the industry, and in most cases are more liberal. A majority but not all of the Company's employees work under some form of additional compensation plan. Most of the factory employees work either on piece rates or have other incentive plans whereby better than average performance is compensated for by wage bonuses. All salesmen and sales managers, as well as most of the factory and office managers, have in addition to their basic salaries, special incentive, bonus, or profit sharing plans to reward them in case of more than satisfactory results. Certain employees whose duties and responsibilities are of a general character which cannot be measured by results of individual operation but are reflected more by the results of the Company as a whole, participate under the management profit sharing plan. This plan was submitted to the shareholders at the Annual Meeting last year and received their approval. The plan is as follows:

"1. DETERMINATION OF ADDITIONAL COMPENSATION.

The amount available for additional compensation under the Profit Sharing Plan shall be determined as follows:

Commencing with the fiscal year ending December 31, 1940, and for each fiscal year thereafter, the Company's consolidated net profit for the fiscal year before deduction of Federal income and excess profits taxes, shall be determined in the customary manner by the independent auditors employed by the Company. From the profits so determined, there shall be deducted an amount equivalent to 6% of the aggregate of the Capital Stock and Surplus accounts as at the beginning of the year for which the additional compensation is to be calculated. An amount equal to 15% of the balance so obtained shall be recorded as of the last day of each such fiscal year, as a liability for additional compensation, and such amount shall be charged against the consolidated net profit computed as hereinabove and shall be the amount available for additional compensation, provided, however, that no such additional compensation shall be paid and no liability for such additional compensation shall be created or recorded as to any fiscal year in which no dividend has been paid on the capital stock of the Company. The final consolidated net profit for each fiscal year shall be shown in the President's annual report to stockholders after the deduction of the liability, if any, for said additional compensation.

2. PERSONS ELIGIBLE TO PARTICIPATE IN PLAN.

The persons eligible to participate in the Profit Sharing Plan shall consist of that class of officers and employees who perform functions of a general executive, financial, administrative and planning nature in connection with the operations of the Company as a whole and of such a general character in relation to the operations of the Company that their effectiveness can be measured only by the extent of the Company's annual profits, such as the officers of the Company, members of the Treasurer's and Comptroller's staff, members of the Legal, Advertising, Art, Sales Promotion, Traffic, Purchasing and Insurance Departments, and others.

3. METHOD OF MAKING DISTRIBUTIONS.

Prior to the end of each fiscal year, the directors of the Company who are not officers or employees and who are not eligible to participate in the Plan shall, in the exercise of

their sole discretion, select from the foregoing class, the persons who shall be entitled to receive additional compensation for such fiscal year, and shall apportion and divide the funds available for additional compensation, as above determined, among the persons so selected and in such varying percentages, or otherwise, as such directors shall determine. Payment of such additional compensation shall be made within three months after the end of the fiscal year."

Prior to the close of 1940 your Board of Directors established the individual percentages of participation for each of the 44 participants. On February 6, 1941, the Certified Public Accountants, in accordance with the provisions of the plan, advised the amount payable for the year 1940; the liability therefor was set up and appears among the current liabilities of the Corporation under accrued salaries, wages and profit-sharing provision.

The Company's contribution to the group insurance and retirement annuity plans, and of course the Company's payments under all wage incentive and profit sharing plans, are deductible for income tax purposes, so that in any year of fair profits under present tax laws, tax savings reduce the net cost to the Company of its contributions to insurance plans and payments to incentive plans by 50% or more.

On December 1, 1940, Mr. L. A. Combs, Assistant Secretary of the Corporation and formerly a member of the Legal Department, was appointed Director of Industrial Relations. His duties are to co-ordinate the labor policies of the Corporation throughout all of its plants; as a staff member of the Head Office he reports directly to the President and will counsel and advise with those officers and managers in charge of mills and factories.

It is continuing to be your Company's policy to promote men wherever possible from within the ranks. It has also been corporate policy to take on each year a number of young men, largely graduates of technical engineering schools and colleges, shortly after their graduation. These are then put through an intensive training course throughout the factories, laboratories, and other departments of the Company. The young men are very carefully selected from some of the best technical and other educational institutions of the country on the basis of character, intelligence, personality, and ambition, and they must not be related to any present employee of the Company or to those who are suppliers or customers of the Company. Obviously, if an employee who is related to any of these three groups does well, the rest of the organization is apt to ascribe it to favoritism; if on the other hand he does badly, it is embarrassing and harmful to your Company's interest to have to discharge some one with whose relatives it is desirable to preserve the most cordial relations. This policy has been in effect for eight years or more and we feel it has proven to be a wise one in this particular institution.

Your Company has followed the policy for some time of giving every employee who has been with the Company for a certain length of time an annual vacation with pay. In connection with those men who either have volunteered or were drafted for military service, the Company has adopted the policy of paying men, without dependents, for thirty days the difference if any between the pay they were receiving from the Company and what they will receive for military service; in the case of men with dependents, for ninety days; in either case the men leaving for military service will be offered re-employment upon the

completion of their service if at all possible; also their group insurance, retirement annuity, and other benefits, will not be lost because of military service.

## ORGANIZATION

The organization as a whole, favored with very active business volume but confronted with the many problems that uncertain and difficult world and business conditions produced, was successful in helping to bring about the best earnings results for any year in the Company's history. For that performance the Board of Directors expresses its appreciation.

Selling and administrative expense increased compared with 1939. On the other hand, it was noted that sales volume and profits increased sharply. Expressed in terms of percentages to sales, selling and administrative expense increased from 7.01% in 1939 to 7.75% in 1940; net profit increased from 6.01% in 1939 to 7.31% in 1940.

The increased selling and administrative expense can in a large part be attributed to the incentive plans and the management profit sharing plan now in effect. Some of these are based on volume and some on profit, and should the volume or profit decline in future years there will be an automatic reduction in selling and administrative expense.

No important organization changes were made during the year except as mentioned before in the appointment of a Director of Industrial Relations.

## PAPERBOARD AND CONTAINER INDUSTRY CONDITIONS

Volume for the full year of 1940 established new peaks in both the paperboard and container industries. The twenty-six container manufacturers who, including your Company, were indicted in August, 1939, for alleged violation through association activities of the Sherman Anti-Trust Act, concluded the litigation by consent decree entered in April of 1940. The old association was discontinued and a new association called the Fibre Box Association was formed. This association is conducting its statistical, freight classification, and many other activities in strict conformance with the provisions of the Consent Decree.

At the present it appears that the paperboard and container industries will continue to enjoy a good volume of business, subject, however, to such changes as may be brought about by international affairs and domestic business conditions. Costs throughout these industries are being adversely affected by higher taxes and in some instances higher labor and raw material costs.

On page 26 a tabulation shows the fourteen year trend of selling prices of some of the principal commodities sold by your Company. This indicates, among other things, the distinct progress made by the whole industry in making its products available to the consumer at continuously lower prices; and this in spite of the upward trend of costs of labor and taxes. It might be commented that this performance in itself probably accounts to a large degree for the impressive broadening of the use of paperboard and paperboard packages as reflected in the continuous growth of this important though young industry.

Submitted on behalf of the Board of Directors.

Respectfully,

Walter P. Paepcke

President

# CONTAINER CORPORATION OF AMERICA AND

## CONSOLIDATED YEAR-END BALANCE SHEETS FOR TWELVE YEAR

### ASSETS

| | 1940 | 1939 | 1938 | 1937 | 1936 |
|---|---|---|---|---|---|
| Cash on hand and in banks | $ 2,456,532 | $ 1,044,918 | $ 1,031,969 | $ 1,650,344 | $ 1,147,362 |
| Accounts and notes receivable—less reserves | 1,969,006 | 1,903,452 | 1,474,683 | 1,133,116 | 1,625,631 |
| Inventories | 3,410,931 | 3,644,189 | 2,859,950 | 3,143,426 | 2,900,739 |
| Total current assets | $ 7,836,469 | $ 6,592,559 | $ 5,366,602 | $ 5,926,886 | $ 5,673,732 |
| Other receivables and investments | 802,253 | 1,561,736 | 1,487,517 | 1,848,555 | 149,754 |
| Treasury stock at cost | — | — | — | — | — |
| Land | 3,485,447 | 3,463,005 | 3,450,285 | 3,192,264 | 3,237,069 |
| Buildings, machinery and equipment | 25,096,655 | 24,051,950 | 23,452,635 | 22,720,891 | 21,872,009 |
| Reserve for depreciation | *10,992,835* | *9,897,678* | *8,922,908* | *7,763,149* | *7,738,397* |
| Deferred charges | 187,062 | 338,039 | 387,994 | 385,583 | 438,647 |
| Good will and patents | 1 | 1 | 1 | 1 | 1 |
| Organization expense | — | — | — | — | — |
| | $26,415,052 | $26,109,612 | $25,222,126 | $26,311,031 | $23,632,815 |

### LIABILITIES

| | 1940 | 1939 | 1938 | 1937 | 1936 |
|---|---|---|---|---|---|
| Accounts payable | $ 345,977 | $ 820,005 | $ 446,525 | $ 363,451 | $ 1,305,003 |
| Accrued salaries, wages, taxes, interest, etc. | 832,830 | 516,978 | 392,440 | 434,276 | 415,636 |
| Reserve for Federal income tax | 1,186,977 | 296,000 | 34,200 | 528,000 | 255,000 |
| Sinking fund payments due within a year | — | 250,000 | 128,000 | 115,000 | 154,000 |
| Total current liabilities | $ 2,365,784 | $ 1,882,983 | $ 1,001,165 | $ 1,440,727 | $ 2,129,639 |
| Funded debt | 4,100,000 | 5,126,000 | 5,945,500 | 6,472,000 | 6,980,500 |
| Provision for prior years Federal income taxes in dispute | — | — | 500,000 | — | — |
| Reserve for contingencies | — | — | — | 449,114 | 434,114 |
| Capital stock | 15,625,060 | 15,625,060 | 15,625,060 | 15,625,060 | 13,070,800 |
| 7% Preferred stock | — | — | — | — | — |
| Class A common stock | — | — | — | — | — |
| Class B common stock | — | — | — | — | — |
| Capital surplus | 671,494 | 671,494 | 671,494 | 383,139 | — |
| Earned surplus | 3,652,714 | 2,804,075 | 1,478,907 | 1,940,991 | 1,017,762 |
| | $26,415,052 | $26,109,612 | $25,222,126 | $26,311,031 | $23,632,815 |
| Working capital | $ 5,470,685 | $ 4,709,576 | $ 4,365,437 | $ 4,486,159 | $ 3,544,093 |
| Current ratio | 3.31 to 1 | 3.50 to 1 | 5.36 to 1 | 4.11 to 1 | 2.66 to 1 |

*Note—Italics denote red figures.*

# SUBSIDIARY COMPANIES

## PERIOD ENDED DECEMBER 31, 1940

| 1935 | 1934 | 1933 | 1932 | 1931 | 1930 | 1929 |
|---|---|---|---|---|---|---|
| $ 1,131,576 | $ 820,912 | $ 439,616 | $ 1,027,685 | $ 876,050 | $ 222,144 | $ 491,956 |
| 1,155,580 | 1,146,099 | 1,161,913 | 804,972 | 932,857 | 1,149,294 | 1,238,223 |
| 2,896,060 | 2,489,422 | 2,622,308 | 1,257,032 | 1,832,466 | 2,658,541 | 2,083,884 |
| $ 5,183,216 | $ 4,456,433 | $ 4,223,837 | $ 3,089,689 | $ 3,641,373 | $ 4,029,979 | $ 3,814,063 |
| 90,563 | 136,840 | 195,079 | 40,475 | 92,844 | 172,862 | 156,599 |
| — | 93,750 | 93,750 | 93,750 | 33,750 | 480,451 | — |
| 3,237,069 | 3,219,640 | 3,219,640 | 3,251,857 | 3,321,932 | 3,330,544 | 2,781,957 |
| 21,143,364 | 20,172,812 | 18,795,010 | 19,734,390 | 20,059,310 | 20,454,670 | 18,474,177 |
| ***6,760,214*** | ***5,789,049*** | ***5,084,545*** | ***4,949,959*** | ***4,205,822*** | ***3,579,910*** | ***2,786,322*** |
| 433,644 | 487,155 | 622,916 | 591,908 | 715,645 | 844,018 | 863,546 |
| 1 | 1 | 1 | 1 | 1 | 1 | — |
| — | — | — | — | — | 49,735 | 49,735 |
| $23,327,643 | $22,777,582 | $22,065,688 | $21,852,111 | $23,659,033 | $25,782,350 | $23,353,755 |

| | | | | | | |
|---|---|---|---|---|---|---|
| $ 758,558 | $ 988,356 | $ 985,431 | $ 340,754 | $ 300,907 | $ 574,222 | $ 416,374 |
| 329,066 | 304,602 | 327,794 | 279,899 | 391,994 | 345,397 | 258,945 |
| 217,500 | 195,000 | — | — | — | — | 85,300 |
| 250,000 | 201,500 | 14,000 | 14,000 | 20,500 | 111,500 | — |
| $ 1,555,124 | $ 1,689,458 | $ 1,327,225 | $ 634,653 | $ 713,401 | $ 1,031,119 | $ 760,619 |
| 7,736,360 | 7,783,500 | 8,239,000 | 8,666,000 | 8,949,125 | 9,523,625 | 9,488,500 |
| — | — | — | — | — | — | — |
| 417,614 | 81,622 | 86,122 | 86,122 | 101,622 | 81,622 | 81,622 |
| 13,070,800 | — | — | — | — | — | — |
| — | 1,206,600 | 1,575,300 | 1,832,200 | 2,035,900 | 2,070,000 | 1,909,100 |
| — | 7,471,100 | 7,471,100 | 7,471,100 | 7,471,100 | 7,928,560 | 5,483,500 |
| — | 2,890,945 | 2,890,945 | 2,890,945 | 2,890,945 | 4,424,483 | 4,424,483 |
| — | 1,922,499 | 1,658,285 | 1,460,811 | 1,460,811 | — | — |
| 547,745 | ***268,142*** | ***1,182,289*** | ***1,189,720*** | 36,129 | 722,941 | 1,205,931 |
| $23,327,643 | $22,777,582 | $22,065,688 | $21,852,111 | $23,659,033 | $25,782,350 | $23,353,755 |
| $ 3,628,092 | $ 2,766,975 | $ 2,896,612 | $ 2,455,036 | $ 2,927,972 | $ 2,998,860 | $ 3,053,444 |
| 3.33 to 1 | 2.64 to 1 | 3.18 to 1 | 4.87 to 1 | 5.10 to 1 | 3.91 to 1 | 5.01 to 1 |

# CONTAINER CORPORATION OF AMERICA AND

## CONSOLIDATED PROFIT AND LOSS STATEMENTS FOR TWELVE

| | 1940 | 1939 | 1938 | 1937 | 1936 |
|---|---|---|---|---|---|
| Net sales (including brokerage sales of subsidiaries) | $30,464,677 | $24,114,815 | $18,705,290 | $25,268,327 | $22,525,268 |
| Cost of sales (exclusive of depreciation) | 23,339,894 | 19,172,531 | 15,295,294 | 19,201,297 | 17,466,001 |
| Gross profit (exclusive of depreciation) | $ 7,124,783 | $ 4,942,284 | $ 3,409,996 | $ 6,067,030 | $ 5,059,267 |
| Provision for depreciation | 1,241,246 | 1,180,417 | 1,261,111 | 1,216,800 | 1,172,734 |
| Gross profit from operations | $ 5,883,537 | $ 3,761,867 | $ 2,148,885 | $ 4,850,230 | $ 3,886,533 |
| Selling, administrative and general expenses (exclusive of bad debts) | 2,361,345 | 1,690,557 | 1,748,504 | 2,027,711 | 1,791,599 |
| Net profit from operations (exclusive of bad debts) | $ 3,522,192 | $ 2,071,310 | $ 400,381 | $ 2,822,519 | $ 2,094,934 |
| Other income and *charges*—net | 113,030 | 36,237 | 75,930 | *71,770* | *89,054* |
| Net profit before interest and Federal income taxes | $ 3,635,222 | $ 2,107,547 | $ 476,311 | $ 2,750,749 | $ 2,005,880 |
| Interest charges, etc. | 220,540 | 365,604 | 412,641 | 438,644 | 463,938 |
| Net profit before Federal income taxes | $ 3,414,682 | $ 1,741,943 | $ 63,670 | $ 2,312,105 | $ 1,541,942 |
| Provision for Federal income taxes | 1,187,000 | 293,043 | 34,200 | 528,000 | 255,000 |
| Net profit carried to earned surplus | $ 2,227,682 | $ 1,448,900 | $ 29,470 | $ 1,784,105 | $ 1,286,942 |

*Note—Italics denote red figures.*

## RECORD OF DIVIDENDS AND INTEREST ON FUNDED DEBT PAID FOR TWELVE YEAR PERIOD JANUARY 1, 1929

| | | | | | |
|---|---|---|---|---|---|
| Dividends paid: | | | | | |
| Preferred stocks | — | — | — | — | — |
| Common stocks | $ 1,171,879 | $ 195,313 | $ 234,376 | $ 860,876 | $ 816,925 |
| Total dividends | $ 1,171,879 | $ 195,313 | $ 234,376 | $ 860,876 | $ 816,925 |
| *Interest on funded debt paid | $ 207,677 | $ 310,900 | $ 346,005 | $ 374,340 | $ 422,459 |
| Total dividends and interest | $ 1,379,556 | $ 506,213 | $ 580,381 | $ 1,235,216 | $ 1,239,384 |

*On basis of cash payments made. This differs slightly from accrual basis used on profit and loss statement.

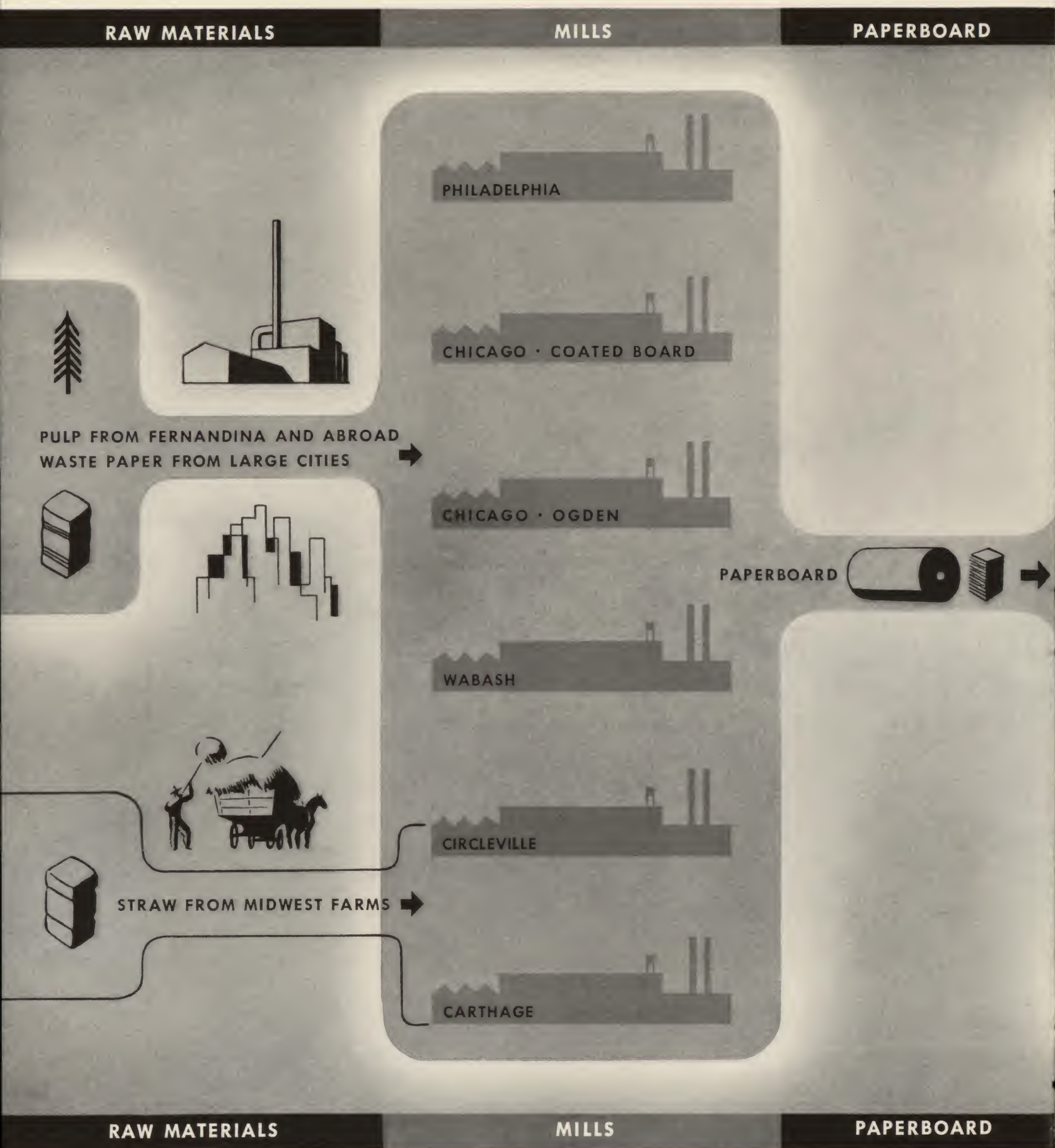
## SUBSIDIARY COMPANIES

### YEAR PERIOD ENDED DECEMBER 31, 1940

| 1935 | 1934 | 1933 | 1932 | 1931 | 1930 | 1929 | Total |
|---|---|---|---|---|---|---|---|
| $20,181,777 | $18,316,508 | $15,419,759 | $11,457,966 | $15,742,264 | $19,102,126 | $19,461,354 | $240,760,131 |
| 15,356,939 | 14,136,407 | 12,819,457 | 10,292,552 | 13,606,085 | 15,653,844 | 15,912,933 | 192,253,234 |
| $ 4,824,838 | $ 4,180,101 | $ 2,600,302 | $ 1,165,414 | $ 2,136,179 | $ 3,448,282 | $ 3,548,421 | $ 48,506,897 |
| 1,152,590 | 984,162 | 791,007 | 806,467 | 830,168 | 826,447 | 748,584 | 12,211,733 |
| $ 3,672,248 | $ 3,195,939 | $ 1,809,295 | $ 358,947 | $ 1,306,011 | $ 2,621,835 | $ 2,799,837 | $ 36,295,164 |
| 1,575,614 | 1,375,624 | 1,096,807 | 1,188,528 | 1,551,114 | 2,006,478 | 1,534,304 | 19,948,185 |
| $ 2,096,634 | $ 1,820,315 | $ 712,488 | $ *829,581* | $ *245,103* | $ 615,357 | $ 1,265,533 | $ 16,346,979 |
| *143,609* | *21,278* | *55,468* | *14,897* | 139,176 | 127,750 | 182,597 | 278,644 |
| $ 1,953,025 | $ 1,799,037 | $ 657,020 | $ *844,478* | $ *105,927* | $ 743,107 | $ 1,448,130 | $ 16,625,623 |
| 497,516 | 491,326 | 516,099 | 535,885 | 580,886 | 623,174 | 588,172 | 5,734,425 |
| $ 1,455,509 | $ 1,307,711 | $ 140,921 | $ *1,380,363* | $ *686,813* | $ 119,933 | $ 859,958 | $ 10,891,198 |
| 217,500 | 195,000 | — | — | — | 14,766 | 85,540 | 2,810,049 |
| $ 1,238,009 | $ 1,112,711 | $ 140,921 | $ *1,380,363* | $ *686,813* | $ 105,167 | $ 774,418 | $ 8,081,149 |

### TO DECEMBER 31, 1940

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| $ 422,310 | $ — | $ — | $ — | $ 37,100 | $ 129,780 | $ 143,150 | $ 732,340 |
| — | — | — | — | 114,403 | 421,555 | 339,597 | 4,154,924 |
| $ 422,310 | $ — | $ — | $ — | $ 151,503 | $ 551,335 | $ 482,747 | $ 4,887,264 |
| $ 438,871 | $ 438,170 | $ 458,685 | $ 478,270 | $ 509,901 | $ 529,549 | $ 523,250 | $ 5,038,077 |
| $ 861,181 | $ 438,170 | $ 458,685 | $ 478,270 | $ 661,404 | $ 1,080,884 | $ 1,005,997 | $ 9,925,341 |




SOURCES AND FLOW OF PRIMARY MATERIALS THROUGH MILLS

| FACTORIES | PRODUCTS | USES |
|---|---|---|

## FACTORIES

- ANDERSON
- CHICAGO
- CINCINNATI
- CLEVELAND
- FT. WORTH
- NATICK
- PHILADELPHIA
- ROCK ISLAND
- ST. LOUIS
- OTHER PAPERBOARD CONVERTERS

## PRODUCTS

- CORRUGATED CONTAINERS
- SOLID FIBRE CONTAINERS
- FOLDING CARTONS
- FOOD PAILS
- SET-UP BOXES
- FIBRE CANS

## USES

- Automobile Accessories
- Bakery Goods
- Beer
- Book Binders, Publishers, Printers
- Boots and Shoes
- Building Materials, Supplies and Fixtures
- Canned Foods
- Caps and Closures
- Caskets and Vaults
- Cereal Products
- China, Pottery and Glass Tableware
- Clothing
- Coffee, Tea, Cocoa and Spices
- Confectionery and Nuts
- Chemicals and Naval Stores
- Dairy Products
- Electrical Appliances and Supplies
- Explosives and Ammunition
- Fruits and Vegetables
- Furniture
- Glass
- Glass Bottles
- Hardware and Tools
- Household Utilities
- Linens and Domestics
- Liquor and Wine
- Luggage
- Machines and Machine Parts
- Matches
- Mattresses and Springs
- Meat Packing
- Musical Instruments
- Notions
- Paint and Varnish
- Paper Mill Products
- Petroleum Products
- Pharmaceuticals, Cosmetics and Druggist Preparations
- Photographic Apparatus and Supplies
- Radios and Accessories
- Refrigerators and Accessories
- Rubber Goods
- Sanitary Ware and Plumbers' Supplies
- Soaps and Cleansers
- Soft Drinks
- Spices
- Sporting Goods
- Stoves and Accessories
- Sugar (Beet and Cane)
- Textiles
- Tobacco Products
- Toys and Games
- Vegetable Oil Products
- Wholesale and Retail Establishments

| FACTORIES | PRODUCTS | USES |
|---|---|---|

AND FACTORIES OF CONTAINER CORPORATION OF AMERICA

## COMMODITY PRICE TREND COMPARISON BY YEARS 1926-1940

Based on information furnished by Official Board Markets and National Paperboard Association—1926 equals 100

| | Jute Liners | .009 Straw | Container Chip | Chip Sheets | Corrugated Containers | Sulphate Pulp |
|---|---|---|---|---|---|---|
| 1926 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| 1927 | 107.2 | 100.0 | 105.9 | 108.6 | 104.4 | 90.2 |
| 1928 | 95.2 | 92.4 | 100.5 | 99.5 | 90.0 | 88.3 |
| 1929 | 83.2 | 90.9 | 90.1 | 90.0 | 81.6 | 81.0 |
| 1930 | 65.8 | 80.1 | 74.7 | 77.9 | 75.1 | 63.5 |
| 1931 | 54.3 | 58.2 | 62.6 | 64.8 | 61.9 | 49.9 |
| 1932 | 46.0 | 52.1 | 58.5 | 66.8 | 52.7 | 46.6 |
| 1933 | 67.5 | 63.7 | 83.5 | 87.3 | 64.5 | 48.5 |
| 1934 | 74.8 | 78.2 | 92.9 | 101.5 | 83.0 | 59.7 |
| 1935 | 66.8 | 78.2 | 78.4 | 88.0 | 76.7 | 56.6 |
| 1936 | 67.3 | 78.2 | 77.3 | 89.0 | 71.5 | 66.0 |
| 1937 | 80.1 | 81.4 | 92.6 | 106.6 | 79.2 | 103.4 |
| 1938 | 57.4 | 64.2 | 70.5 | 78.9 | 69.4 | 65.6 |
| 1939 | 58.6 | 61.4 | 75.5 | 86.9 | 66.0 | 54.5 |
| 1940 | 66.0 | 73.8 | 86.8 | 93.5 | (Est.) 72.0 | 102.4 |

ARTHUR ANDERSEN & CO.

135 SOUTH LA SALLE STREET
CHICAGO

To the Stockholders of

Container Corporation of America:

We have examined the consolidated balance sheet of CONTAINER CORPORATION OF AMERICA (a Delaware corporation) and its subsidiaries as of December 31, 1940, and the summaries of consolidated profit and loss and surplus for the year ended that date. In connection therewith, we have examined or tested accounting records of the companies and other supporting evidence and have reviewed the system of internal control and the accounting procedures of the companies by methods and to the extent we deemed appropriate, but we did not make a detailed audit of the transactions.

In our opinion, the accompanying consolidated balance sheet and related summaries of consolidated profit and loss and surplus fairly present the financial position of Container Corporation of America and its subsidiaries at December 31, 1940, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles maintained by the companies on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Chicago, Illinois,

February 6, 1941.

## CONTAINER CORPORATION OF AMERICA

### CONSOLIDATED BALANCE SHEET

### ASSETS

| | | | |
|---|---|---|---|
| **Current Assets:** | | | |
| Cash in banks and on hand | | | $ 2,456,531.90 |
| Accounts and notes receivable from customers | | $ 1,867,541.14 | |
| Less—Reserve for doubtful receivables | | 110,008.96 | 1,757,532.18 |
| Note receivable due in 1941 | | | 125,000.00 |
| Sundry current receivables | | | 86,473.82 |
| Inventories of finished goods, work in process, raw materials and supplies—priced at the lower of cost or market | | | 3,410,930.76 |
| Total current assets | | | $ 7,836,468.66 |
| **Other Receivables and Investments:** | | | |
| Notes receivable (secured by property sold), maturing $125,000 semiannually from January 1, 1942 to July 1, 1943 | | $ 500,000.00 | |
| Deposit under lease with purchase option | | 152,730.14 | |
| Other receivables and investments, at cost | | 149,523.53 | 802,253.67 |
| **Plant and Equipment**—stated at amounts (based in part on appraisals) recorded at dates of acquisition of properties (including properties acquired for capital stock), plus additions since at cost, less reserve for depreciation: | | | |
| Land | | $ 3,485,447.09 | |
| Buildings | $ 7,486,521.77 | | |
| Machinery, equipment, etc. | 13,498,772.53 | | |
| Leasehold and leasehold improvements | 4,111,360.29 | | |
| | $25,096,654.59 | | |
| Less—Reserve for depreciation | 10,992,834.90 | 14,103,819.69 | 17,589,266.78 |
| **Deferred Charges:** | | | |
| Prepaid insurance | | $ 141,892.60 | |
| Other prepaid expenses, etc. | | 45,169.53 | 187,062.13 |
| **Goodwill and Patents**—at nominal value | | | 1.00 |
| | | | $26,415,052.24 |

## DECEMBER 31, 1940

## LIABILITIES

| | | |
|---|---|---|
| **Current Liabilities:** | | |
| Accounts payable | | $ 345,976.73 |
| Acrued liabilities— | | |
| Salaries, wages and profit-sharing provision | $ 465,411.03 | |
| Taxes, other than income taxes | 338,429.97 | |
| Other | 28,989.60 | 832,830.60 |
| Provision for Federal income taxes | | 1,186,976.62 |
| Total current liabilities | | $ 2,365,783.95 |
| **Term Bank Loan** maturing $600,000 per year in equal monthly installments from January 15, 1942 to June 15, 1945, and $2,000,000 on June 15, 1945, with interest at rates varying from 1¾% to 2½% per annum | | 4,100,000.00 |
| **Capital Stock and Surplus:** | | |
| Capital stock— | | |
| Authorized 1,000,000 shares of $20 par value each | | |
| Outstanding 781,253 shares | $15,625,060.00 | |
| Paid-in surplus (no change during year) | 671,494.30 | |
| Earned surplus, restricted under bank loan agreement to the extent of $2,500,000 with respect to payment of dividends (see accompanying summary) | 3,652,713.99 | 19,949,268.29 |
| | | $26,415,052.24 |

# CONTAINER CORPORATION OF AMERICA AND SUBSIDIARY COMPANIES

## SUMMARY OF CONSOLIDATED PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1940

| | | | |
|---|---|---|---|
| NET SALES (including brokerage sales of subsidiary) | | | $30,464,676.67 |
| COST OF SALES (exclusive of depreciation) | | $23,339,894.48 | |
| PROVISION FOR DEPRECIATION (including $11,138.38 of depletion) | | 1,241,245.50 | 24,581,139.98 |
| Gross profit from operations | | | $ 5,883,536.69 |
| SELLING, ADMINISTRATIVE AND GENERAL EXPENSES | | | 2,361,344.56 |
| Net profit from operations | | | $ 3,522,192.13 |
| ADD: | | | |
| Purchase discounts, interest earned, etc. | | $ 160,647.52 | |
| Less— | | | |
| Loss on sales or retirements of plant and equipment | $42,705.56 | | |
| Provision for doubtful receivables, less recoveries | 4,912.44 | 47,618.00 | 113,029.52 |
| Net profit before interest and Federal income taxes | | | $ 3,635,221.65 |
| INTEREST CHARGES, ETC.: | | | |
| Interest on bonds and debentures retired in 1940 | | $ 126,921.48 | |
| Interest on term bank loans | | 66,552.31 | |
| Amortization of debt discount and expense applicable to debt retired in 1940 | | 15,541.79 | |
| Other | | 11,524.46 | 220,540.04 |
| Net profit before Federal income taxes | | | $ 3,414,681.61 |
| PROVISION FOR: | | | |
| Federal income taxes | | $ 773,000.00 | |
| Federal excess profits taxes | | 414,000.00 | 1,187,000.00 |
| Net profit carried to earned surplus | | | $ 2,227,681.61 |

NOTE: For Federal income and excess profits tax purposes, the company has a deduction for discount, expense and premium on the first mortgage bonds and debentures retired during 1940 charged to surplus; as a result, the provision for income and excess profits taxes is approximately $130,000 less than would otherwise be required.

# CONTAINER CORPORATION OF AMERICA AND SUBSIDIARY COMPANIES

## SUMMARY OF EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1940

| | | | |
|---|---|---|---|
| BALANCE DECEMBER 31, 1939 | | | $2,804,075.00 |
| ADD—Net profit for year (see accompanying summary) | | | 2,227,681.61 |
| | | | $5,031,756.61 |
| DEDUCT: | | | |
| Cash dividends paid ($1.50 per share) | | $1,171,879.50 | |
| Charges in connection with retirement during year of first mortgage bonds and debentures— | | | |
| Unamortized discount and expense | $141,943.12 | | |
| Premium upon prepayment | 65,220.00 | 207,163.12 | 1,379,042.62 |
| Balance at December 31, 1940 | | | $3,652,713.99 |

NOTE: Earned surplus is restricted under bank loan agreement to the extent of $2,500,000 with respect to payment of dividends.

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R. R. DONNELLEY & SONS COMPANY
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